

A PERSPECTIVE ON THE CHANGING ACQUISITION ENVIRONMENT

How One Small Business Copes with the Effects of a Shrinking Defense Budget

Mark E. Reavis

C hange in the Department of Defense is analogous to an elephant on a water bed; a shift in position may not seem like a big deal to the elephant, but it could have disastrous implications for his smaller bed-fellows. Similarly, small businesses often find themselves tossed in the wake of the forces transforming the Department of Defense's (DoD) acquisition culture. The large defense contractors were consistent vocal proponents of acquisition reform and helped shape many of the policy changes in progress today. Although there remains a strong commitment among DoD's policymakers to ensure the survival of small business as a class, changes in the defense environment are causing individual small businesses to re-examine their relationship with the government as a customer.

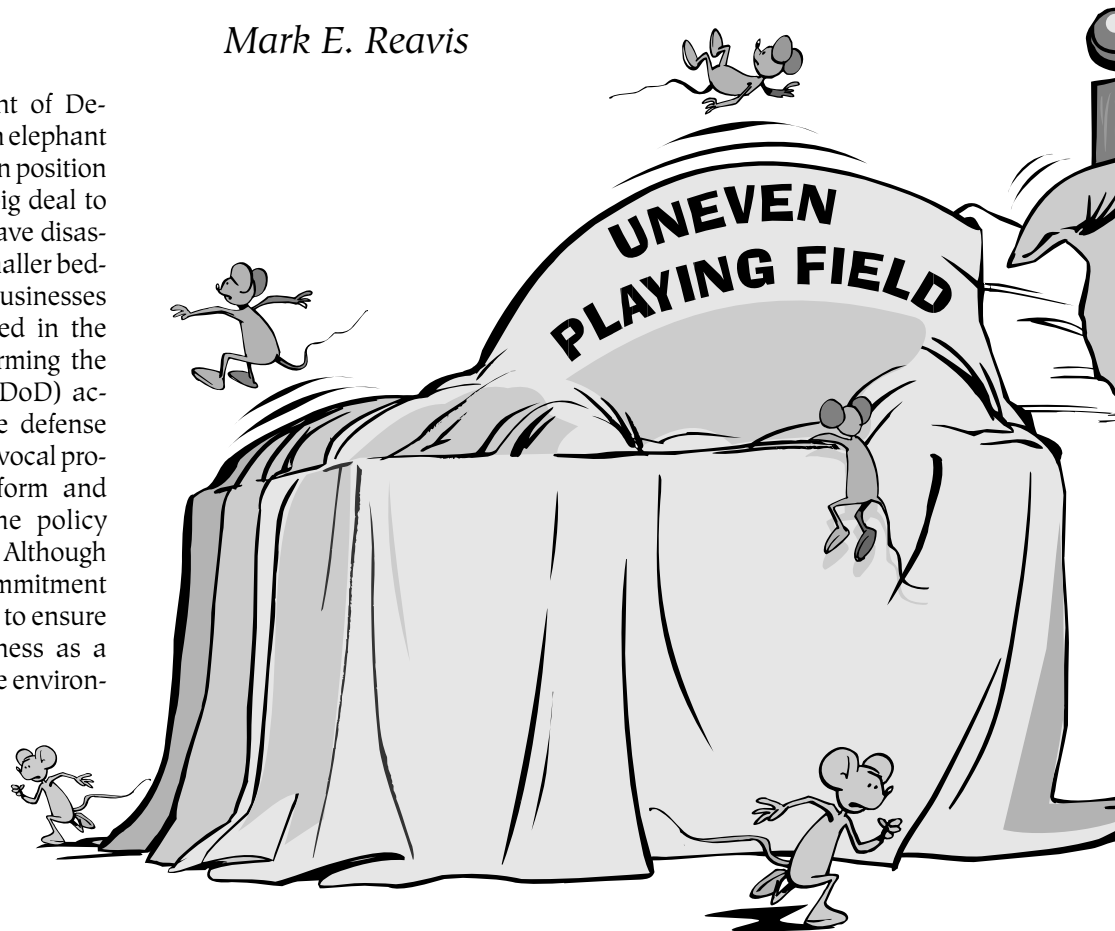
A Look at One Small Business

Dynetics Inc. is an employee-owned small business with corporate

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headquarters located in Huntsville, Ala. Named the Small Business Administration's Small Business Prime Contractor of the Year in 1994, Dynetics has approximately 300 employees and annual revenues of \$30 million. Since its incorporation in 1974, Dynetics' business base has consisted of research, development

and engineering support to government agencies and commercial firms. Primary areas of expertise are systems engineering, sensor design, radars, simulation and program management. Dynetics used a strategic planning process as a means of broadening its business base in the commercial sector, through the development of com-



mercial products and the sale of technical services to commercial industry.

I recently had the opportunity to discuss the effects of the shrinking defense budget and acquisition reform with Dr. Marc Bendickson, President of Dynetics, Inc.

On Decreasing Defense Budgets

Mr. Reavis: The Defense budget declined with respect to buying power every year since 1985. What was Dynetics' response to this shrinking of your largest market?



Dr. Bendickson: Initially, our focus was on working harder and improving the quality of our services and products. We invested in capital equipment to make our products more attractive and professional looking. Then we set about finding new related customers and markets, while carefully constraining our growth. In 1990, we expanded our focus to include diversification within the DoD market and to pursue commercial product opportunities. However, 3 years later

our reliance on government contracts was still near 100 percent, and we were forced to lay off 7 percent of our staff in early 1993.

Mr. Reavis: As defense dollars become more scarce, we are starting to see changes in the way large and small businesses decide upon which areas they will pursue. How has this affected the nature of competition for small businesses?

Dr. Bendickson: We look at competition on three levels:

1. *Unrestricted Procurements.* Large businesses are now pursuing many of the unrestricted procurements they did not pursue in the past — either because they were too small in dollar value to be worth their effort, or because they might contain potential exclusions for follow-on hardware or system development.

2. *Small and Disadvantaged Business (8a) Procurements.* These strictly protected procurements only provide for limited participation by non-disadvantaged small businesses (SDB), in either a teaming relationship or subcontractor role. Participation in those procurements is not a viable path for our survival or growth.

3. *Small Business Set-asides.* These are the only procurements that offer small businesses any encouragement. They give us real opportunity. However, these procurements are very competitive — the number of small businesses competing for the limited number of set-aside dollars is very high. Also, SDBs and 8a companies are entering this market, providing even more competition.

Mr. Reavis: Funding instability and changing defense priorities have always been challenges to program management, within the government and for industry. With fewer dollars available, managers are pressed to cut costs wherever possible. Often this means canceling intended procure-

ments or electing not to exercise contract options. How are small businesses affected by this sort of belt tightening?

Dr. Bendickson: Small businesses have limited quote and proposal budgets to pursue new efforts. A lot of paid and unpaid time goes into the preparation of a proposal that will be competitive in today's environment. However, many efforts result in no or low returns for all the hard work and investment. Some efforts don't get funded (no award is made or the procurement is canceled) after a proposal is submitted, and some efforts get awarded, but are only funded at a fraction of the overall contract potential. These realities drive up the threshold rate of return on investment to unacceptable levels for some efforts that we are well qualified to pursue. Small businesses can be enticed into adopting a "shotgun" strategy, going after more and more procurements with lower and lower probabilities of winning. This diminishes their ability to do their best work by going after funded programs that match their core competencies. In a time where focus of purpose, mission and customers is considered the most sound business strategy, small businesses are often tempted to be broader than many of their resources can support.

On Acquisition Reform

Mr. Reavis: How has the recent emphasis on dual use and commercialization of defense technology influenced small business? What barriers remain to commercial application of defense-related technologies?

Dr. Bendickson: There was a lot of encouragement from the upper levels of government for the dual use and commercialization of DoD technology. However, there are still barriers, especially in the way we do business — we must modify our style, approach and standards to compete in the commercial environment. As we explore opportunities in commercial markets,

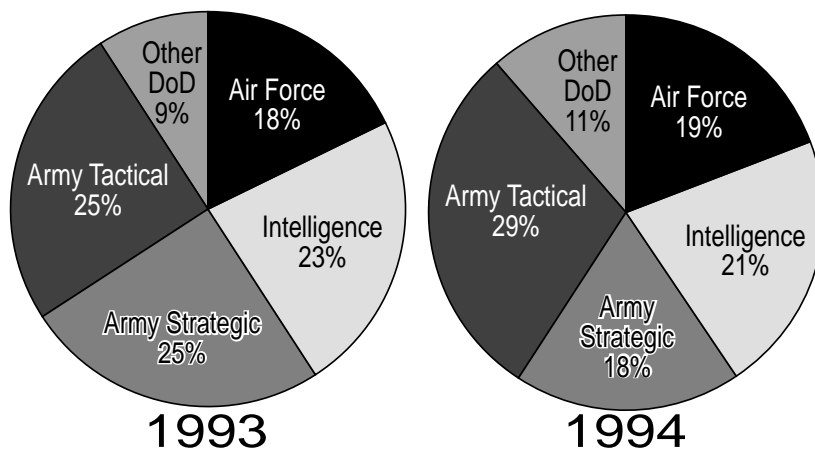
we must learn to be quicker to market with our products and services.

Most small research and development (R&D) contractors do not have the supporting people to market products and provide service to customers as expected with commercial products. Some of our internal cultural barriers involve dealing with specifications that are often much softer in a commercial venture, so we must resist the temptation to over-design. We found that people who performed well in DoD R&D may not be well suited to perform commercial work. Business accounting procedures for government-funded work and commercially funded work often conflict, making it difficult for companies with limited facilities and resources to manage for different types of customers.

Mr. Reavis: Much of what is driving the acquisition reform movement is the realization that we, as a country, are shifting from a mass production age to an information age, where government and industry will be required to exhibit agility in coping with the changing demands of our environment. The use of electronic data interchange (EDI) in the transmission of requests for proposal (RFP) and in the submission of deliverables is one of the tools being sold to bring DoD into the information age. Has EDI cut proposal costs and turn-around time, or are we still on the bleeding edge of technology?

Dr. Bendickson: The change to electronic transmission of requirements and responses is being gradually felt. There were some slight savings in terms of paper transmitted and the need for paper storage. It seems the most significant savings so far was felt by the government as they increasingly require cost proposals be submitted electronically, allowing government cost analysts to evaluate cost submissions without having to re-enter data. As RFPs are transmitted electronically, we are concerned about loss of data in RFPs and other solici-

FIGURE. Dynetics Business Base



tions. On occasion, we receive RFPs electronically with pages and paragraphs missing, so we still need to confirm content with the paper version.

Mr. Reavis: Have you had any experience yet with the shift to commercial specifications and standards in government procurement, and how does it impact the economics of how you will do business in the future?

Dr. Bendickson: We are currently working with specifications that are hybrids—a combination of DoD standards and best commercial practices—and with pure commercial standards that are, in some cases, much more relaxed than their government counterparts. Most of the commercial business we are pursuing is in the high-tech end of commercial products, so the standards tend to be similar to government standards. For example, the work we do for the automotive industry requires stringent standards for reliability and safety, as well as most of the same standards as DoD in other areas.

Mr. Reavis: The arms-length relationship between the government and its contractors is said to be a thing of the past. A relationship more closely resembling a partnership will define future government and industry relationships. It will no longer be economically viable to maintain rigorous

oversight of such limited resources. Have you seen any evidence of this change in culture, and do you see it as applicable to the small business environment?

Dr. Bendickson: I see the partnership roles evolving with certain customers and projects. Team atmospheres were created where industry and government personnel share technical responsibilities and work jointly on projects. However, the contractual process has not caught up with this team environment to the point where we share requirements definition and technical performance. Ultimately, the industry part of the team is still accountable for the job and must meet all the traditional performance requirements.

Conclusion

The experiences of **Dr. Bendickson** and his staff at Dynetics are not atypical of other small businesses required to adapt to a shrinking defense market and a new, evolving relationship with their customers. As with any type of change, an element of uncertainty remains, and the effects on all stakeholders must be considered, especially when such sweeping changes are made in an environment of decreasing resources. The future of our national defense community will depend upon government and industry working together to form a high-quality, streamlined and responsive partnership.